

**LEGISLATIVE SERVICES AGENCY  
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS**

200 W. Washington, Suite 301  
Indianapolis, IN 46204  
(317) 233-0696  
<http://www.in.gov/legislative>

**FISCAL IMPACT STATEMENT**

**LS 7326**

**BILL NUMBER:** HB 1003

**NOTE PREPARED:** Mar 29, 2013

**BILL AMENDED:** Mar 28, 2013

**SUBJECT:** School Scholarships.

**FIRST AUTHOR:** Rep. Behning

**FIRST SPONSOR:** Sen. Eckerty

**BILL STATUS:** CR Adopted - 2<sup>nd</sup> House

**FUNDS AFFECTED:** X **GENERAL**  
**DEDICATED**  
**FEDERAL**

**IMPACT:** State

**Summary of Legislation:** (Amended) *School Scholarship Tax Credit*: This bill provides that a taxpayer may carry forward a School Scholarship Income Tax Credit for a taxable year that begins after December 31, 2012. Starting FY 2014, it increases the fiscal year cap applied to the tax credit from \$5 M to \$10 M.

*Choice Scholarship* - The bill specifies eligibility standards for Choice Scholarships. It increases the Choice Scholarship cap for students enrolled in grades 1 through 8. The bill also makes various administrative changes to the Choice Scholarship Program.

The bill removes a provision that allows the Department to make only a partial Choice Scholarship Grant.

The bill makes conforming amendments.

**Effective Date:** January 1, 2013 (retroactive); July 1, 2013.

**Explanation of State Expenditures:** (Revised) *Choice Scholarship Eligibility*: The bill expands the pool of students who would be eligible for Choice Scholarships by adding:

1. Children with disabilities who require special education with household income under 200% of the amount needed to qualify for free or reduced priced lunch.
2. Students enrolled in nonpublic schools with household income under 150% of the amount needed to qualify for free or reduced priced lunch, if their public school of attendance is in the lowest performance category before June 30, 2013 or the lowest two categories established after June 30, 2013 for at least two years.

3. Students enrolled in kindergarten through 12th grade (instead of in 1st through 12th grade) in an Indiana public school for two semesters immediately before they receive a Choice Scholarship with household income under 150% of the amount needed to qualify for free or reduced price lunch.
4. Siblings of children who have received a Choice Scholarship or school scholarship from a scholarship granting organization.

The bill also provides that a child who initially meets the income eligibility requirements for a Choice Scholarship and whose household income subsequently increases remains eligible for the scholarship, if the child's household income does not exceed 200% of the amount necessary to qualify for free or reduced price lunch.

The increase in eligible children due to these changes is indeterminable, but could be significant. Ultimately, the impact of expanding the pool of students who are eligible for Choice Scholarships would depend on the tuition support appropriation by the General Assembly. If the addition of more Choice Scholarship students causes the actual expenditures for Choice Scholarships and the school formula to public schools to exceed the appropriation, then the distribution to public schools and scholarship recipients under the appropriation would be proportionately reduced.

(Revised) *Maximum Choice Scholarship Amount:* The bill increases the maximum Choice Scholarship for 1<sup>st</sup> through 8<sup>th</sup> grade students from \$4,500 to \$4,600 for FY 2014 and to \$4,700 for FY 2015. For FY 2013, approximately 3,854 of the 9,135 choice scholarships were funded at the \$4,500 level. The scholarships with a dollar amount greater than the \$4,500 maximum averaged about \$5,667. For FY 2013, the \$100 increase in the maximum scholarship for 1<sup>st</sup> through 8<sup>th</sup> grade Choice Scholarship students would have cost \$385,400 with a \$200 increase costing \$770,800. The impact could grow as more students use the Choice Scholarship Program.

The maximum number of scholarships for the 2011-12 school year was 7,500, and the maximum number of scholarships for the 2012-13 school year is 15,000. There is no limit on the number of Choice Scholarships beginning in FY 2014. The following table has the number of scholarships and value of those scholarships for FY 2012 and FY 2013.

Fiscal Year	Number of Scholarships	Value of Scholarships	Average Scholarship
2012	3,911	\$ 15.6 M	\$3,988.75
2013	9,135	\$37.3 M	\$4,083.10

*Choice Scholarship Approval:* The time line for the Department to approve a Choice Scholarship should have minor fiscal impact on the Department.

(Revised) *Department of State Revenue (DOR):* The DOR would incur some administrative expenses relating to the revision of tax forms, instructions, and computer programs to reflect the changes relating to the School Scholarship Tax Credits proposed in this bill. The DOR's current level of resources should be sufficient to implement these changes.

**Explanation of State Revenues:** (Revised) *School Scholarship Tax Credit:* The bill makes the following changes to the tax credit.

(1) The bill increases the fiscal year cap applied to the credit from \$5 M to \$10 M for each fiscal year starting in FY 2014. The fiscal impact of this provision could potentially begin in FY 2014, depending on the level of qualified contributions to scholarship granting organizations. While the maximum additional annual revenue loss due to this change would be \$5 M, it is unlikely to occur in the short term given that current credit levels are well below the existing \$5 M annual cap.

(2) The bill would allow tax credits for contributions to school scholarship granting organizations beginning in tax year 2013 to be carried forward for up to nine years. This change could potentially increase the long-run revenue loss from the tax credit by allowing taxpayers who could not otherwise exhaust the credit in one year to carry forward unused credit amounts.

Current law provides a nonrefundable tax credit to individuals and corporations that make contributions to a scholarship granting organization. The credit is equal to 50% of the amount of the charitable contribution, and may be taken against the Individual and Corporate AGI Tax, the Financial Institutions Tax, and the Insurance Premiums Tax. Total credits may not exceed \$5.0 M in any fiscal year, and the tax credit may not be carried back or carried forward. In tax year 2010, about \$183,000 in School Scholarship credits was claimed. However, through March 27, 2013, \$2.3 M in credits has been approved for FY 2013.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** DOR, DOE.

**Local Agencies Affected:** Schools

**Information Sources:** OFMA Income Tax Database. DOR's School Scholarship Credit Report - <http://www.in.gov/dor/4305.htm> .

**Fiscal Analyst:** Chuck Mayfield, 317-232-4825.